

Appendix 1: Materials used by Mr. Engen

Class I FOMC – Restricted Controlled (FR)

Material for Briefing on
Thresholds

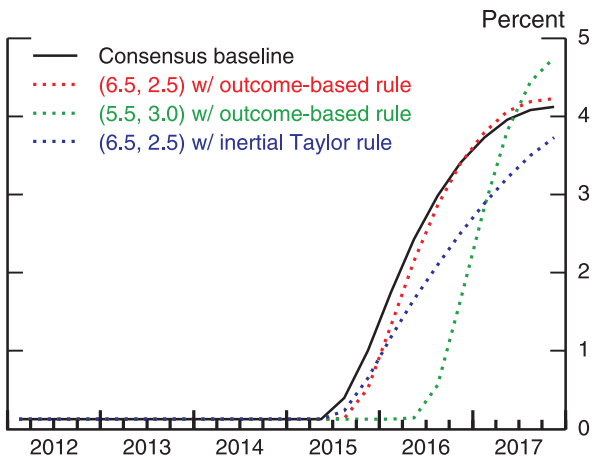
Eric Engen
October 23, 2012

Exhibit 1

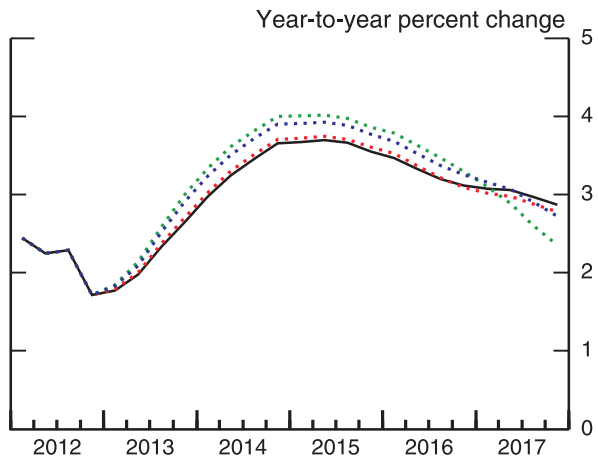
Thresholds

- Thresholds could increase clarity of Committee’s intentions and improve market’s understanding of policy reaction function.
 - Market responses to economic developments may be more likely to move longer-term interest rates consistent with Committee’s view for path of short-term rates.
 - Enhanced clarity might reduce uncertainty about future policy.
- Thresholds could facilitate Committee’s deliberations.
- Thresholds might provide additional policy stimulus if materially changed expectations for future path of funds rate.

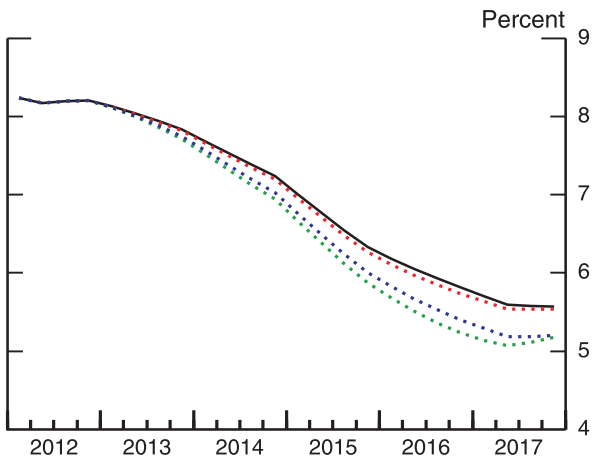
Federal Funds Rate



Real GDP



Unemployment Rate



PCE Inflation

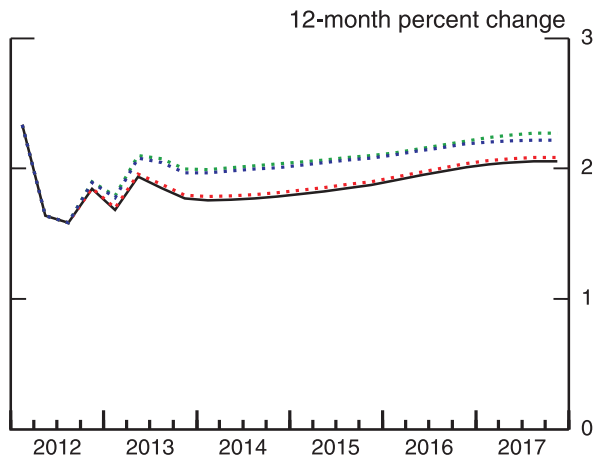


Exhibit 2

Some Broader Lessons and Issues

- Some lessons from model-based analysis:
 - Thresholds would likely perform fairly well under variety of economic conditions.
 - Thresholds could improve expected economic performance—with caveat that thresholds can be set too aggressively.
- Some issues with setting unemployment rate and projected inflation thresholds:
 - Amount of labor slack is uncertain, but this risk is associated with any policy strategy using measure of slack, and thresholds may not exacerbate it greatly.
 - Even projected inflation is volatile, and setting inflation threshold modestly above target could have threshold crossed early with still-elevated unemployment. Economic outcomes could be less favorable than with somewhat higher inflation threshold.
- Some communications challenges:
 - Difficult to formulate inflation threshold with realized headline inflation because of volatility.
 - Effect of policy on economic conditions depends on expectations for both policy after onset of firming and start date of firming.
 - Thresholds would likely differ from Committee's longer-run objectives and market participants may not understand distinction.
 - Thresholds would describe policy in terms of two variables, but Committee draws on a wide range of indicators when setting policy.

Exhibit 3

Draft threshold language**Alternative 1**

To support continued progress toward maximum employment and price stability, the Committee expects that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the economic recovery strengthens. In particular, the Committee also decided today to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that this exceptionally low range for the federal funds rate will be appropriate at least ~~as long as~~ until the unemployment rate ~~exceeds~~ falls below 6½ percent, provided that inflation at a one- to two-year horizon is projected to be no more than a half percentage point above the Committee's 2 percent objective and longer-term inflation expectations continue to be well anchored. [In determining the time horizon over which it maintains a highly accommodative stance of monetary policy, the Committee will also consider the pace of improvement in labor market conditions, and other indicators of economic and financial conditions activity and prices.] The Committee may determine that the current target range for the federal funds rate is appropriate for even longer based on the pace of improvement in labor market conditions and other indicators of economic activity and prices.] When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with maintaining continued satisfactory progress toward maximum employment in a context of price stability.

Alternative 2, referencing realized inflation rather than projected inflation

To support continued progress toward maximum employment and price stability, the Committee expects that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the economic recovery strengthens. In particular, the Committee also decided today to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that this exceptionally low range for the federal funds rate will be appropriate at least ~~as long as~~ until the unemployment rate ~~exceeds~~ falls below 6½ percent, provided that the 12-month growth rate of the price index for personal consumption expenditures is ~~inflation at a one- to two-year horizon is projected to be~~ no more than a half percentage point above the Committee's 2 percent objective and longer-term inflation expectations continue to be well anchored. A transitory increase in inflation owing to fluctuations in the prices of energy or other volatile components of the price index would not necessarily by itself warrant an increase in the target range. [In determining the time horizon over which it maintains a highly accommodative stance of monetary policy, the Committee will also consider the pace of improvement in labor market conditions, and other indicators of economic and financial conditions activity and prices.] The Committee may determine that the current target range for the federal funds rate is appropriate for even longer based on the pace of improvement in labor market conditions and other indicators of economic activity and prices.] When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with maintaining continued satisfactory progress toward maximum employment in a context of price stability.

Questions for FOMC Discussion on Quantitative Thresholds

1. Do you think it would be beneficial to express the Committee's forward guidance on the funds rate using numerical thresholds?
2. If the Committee were to incorporate such thresholds into the forward guidance:
 - a. Should the thresholds replace the date-based guidance or be combined with the date-based guidance? If you think they should be combined, would you do that routinely or only as a transition when the thresholds are first introduced?
 - b. What variables should the thresholds reference? Regarding inflation, should the thresholds reference actual inflation or a projection? What should the numerical values be for the variables used?
 - c. In what way, if at all, should the language indicate that the Committee may tighten policy before any thresholds are crossed?
 - d. In what way, if at all, should the Committee provide guidance about the timing of liftoff after a threshold is crossed and the likely course of policy after the initial increase in the funds rate target?

Appendix 2: Materials used by Mr. Potter

Class II FOMC - Restricted (FR)

Material for

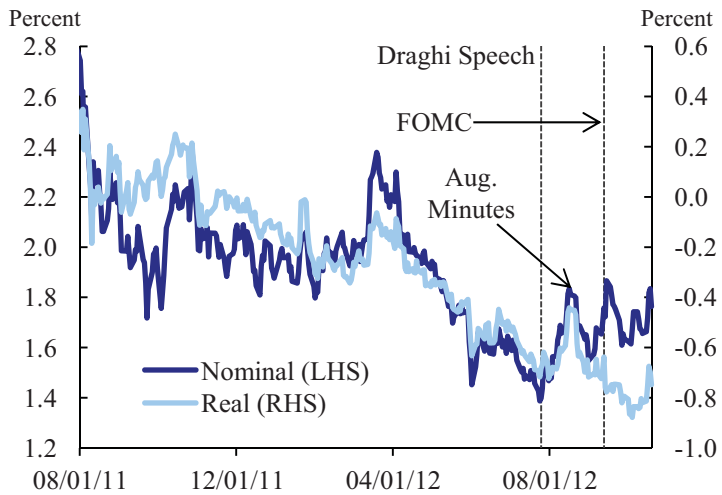
FOMC Presentation:

Financial Market Developments and Desk Operations

Simon Potter

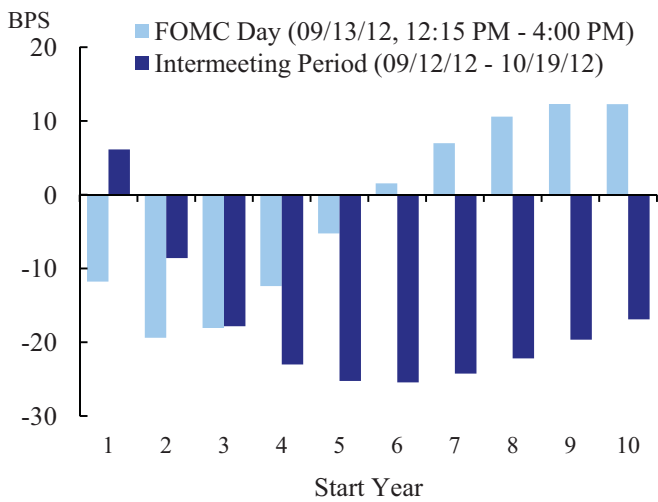
October 23, 2012

(1) Ten-Year Nominal and Real Treasury Yields



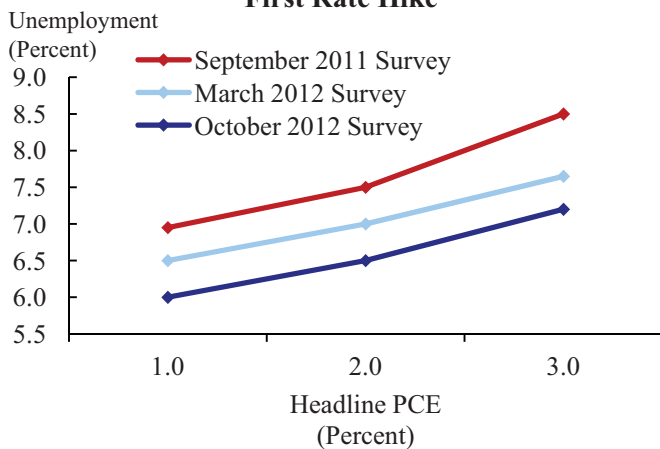
Source: Bloomberg

(2) Changes in One-Year Forward Real Rates



Source: Federal Reserve Board of Governors

(3) Macroeconomic Conditions That Would Prompt First Rate Hike*



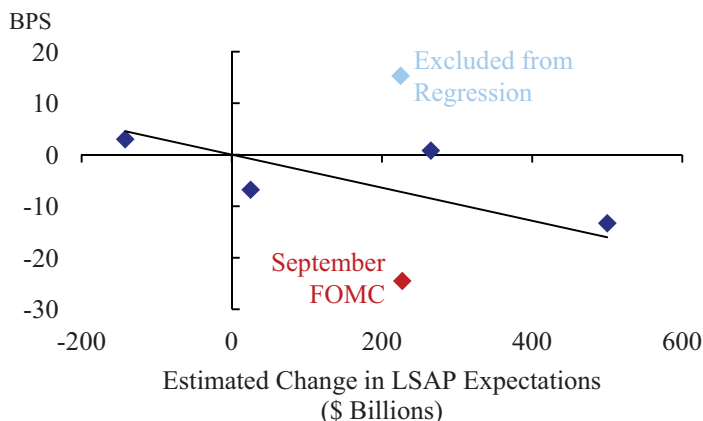
*Median dealer estimate of unemployment rate for given inflation rate.
Source: Federal Reserve Bank of New York Survey

(4) Inflation Expectations

| | 5Y BEI | 5Y5Y BEI | Prob. of $\geq 3\%$ 10Y CPI** | Prob. of $\geq 3\%$ 5Y5Y CPI*** |
|----------------|----------------|---------------|-------------------------------|---------------------------------|
| Pre-FOMC | 2.13% (53)* | 2.61% (46) | 50% | 9% |
| Peak on Period | 2.47% (83) | 2.88% (85) | 58% | N/A |
| Current | 2.22% (60) | 2.81% (78) | 53% | 9% |

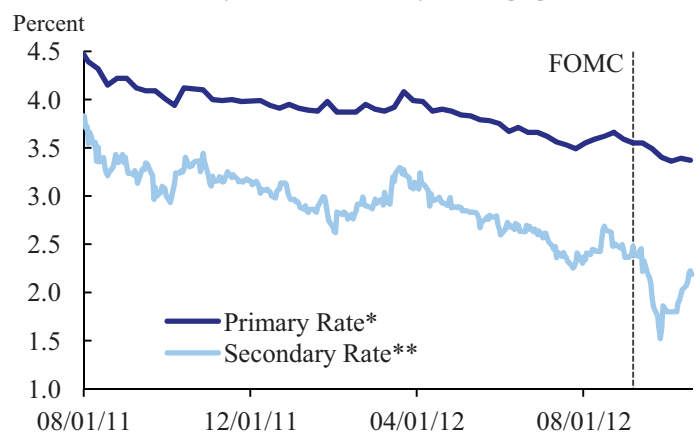
*Percentile rank as compared to 01/01/99 – 08/31/08 period in parentheses.
**Risk-neutral probability of 10-year average CPI $\geq 3\%$, derived from inflation caps and floors. Data only available since October 2009.
***Probability as estimated on dealer survey. Data only available since March 2007. Historical peak of 10.4% in November 2011 survey.
Source: Federal Reserve Board of Governors, Federal Reserve Bank of New York Survey

(5) Changes in Agency MBS Spread to Treasury Around MBS Announcements*



*Two-day changes in FNMA 30-year current coupon zero volatility spread to Treasury.
Source: J.P. Morgan, Federal Reserve Bank of New York Survey

(6) Primary and Secondary Mortgage Rates



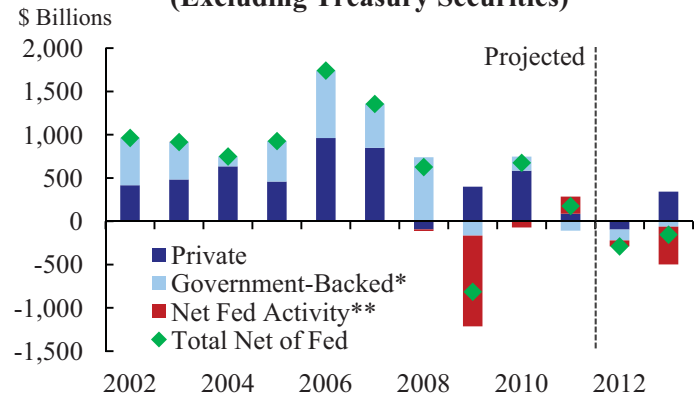
*FHLMC 30-year survey rate.
**FHLMC 30-year current coupon yield.
Source: FHLMC, Bloomberg

(7) Changes in Credit Spreads to Treasury Around September FOMC

| | Aug. Minutes to FOMC | Day of FOMC | Total Change on Period* |
|-----------------|----------------------|-------------|-------------------------|
| 2-Year Swap | -5 bps | -2 bps | -5 bps |
| 10-Year Swap | -2 | -3 | -6 |
| IG Debt | -7 | -2 | -33 |
| HY Debt | -34 | -2 | -12 |
| ABS | -9 | -1 | -5 |
| Leveraged Loans | -22 | +0 | -20 |
| CMBS | -9 | +0 | -32 |

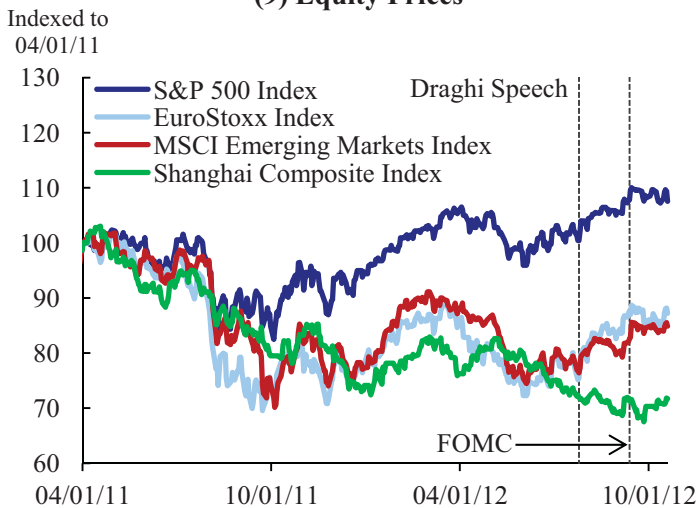
*Pre-FOMC to present (09/12/12 – 10/19/12).
Source: Bloomberg, Barclays, J.P. Morgan

(8) Net Yearly U.S. Fixed Income Issuance (Excluding Treasury Securities)



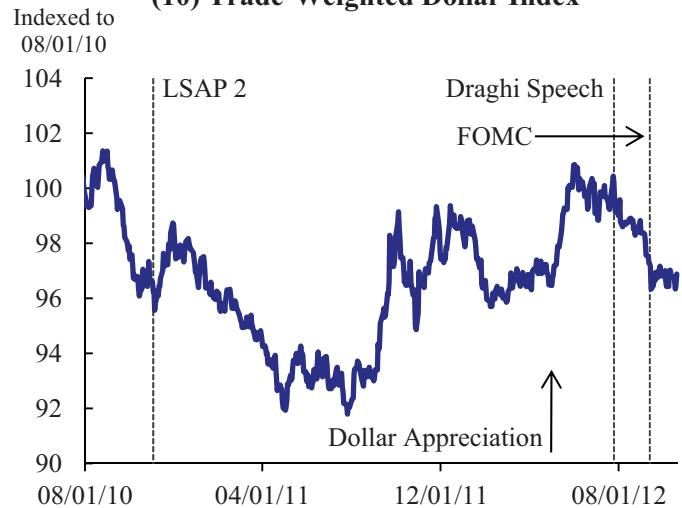
*Includes agency securities.
**Projections based on median dealer survey responses.
Source: Flow of Funds, Credit Suisse, Federal Reserve Bank of New York Survey

(9) Equity Prices



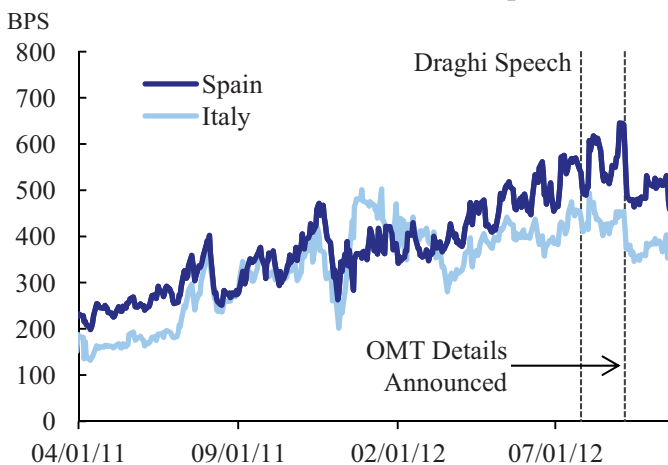
Source: Bloomberg

(10) Trade-Weighted Dollar Index



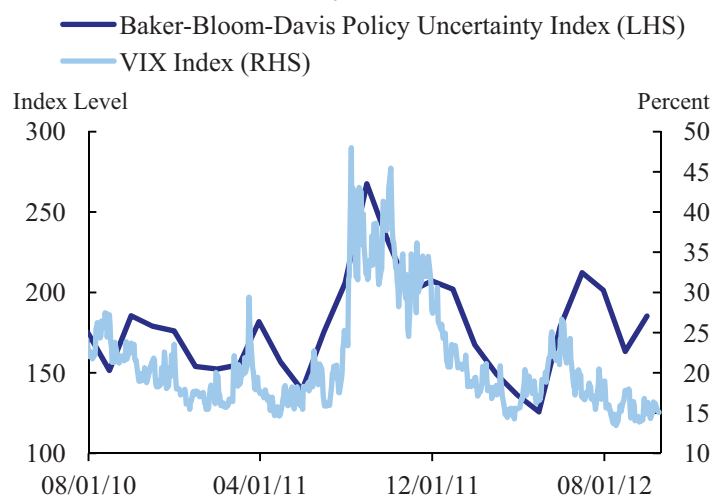
Source: Federal Reserve Board of Governors

(11) Euro Area Forward Rate Spreads*



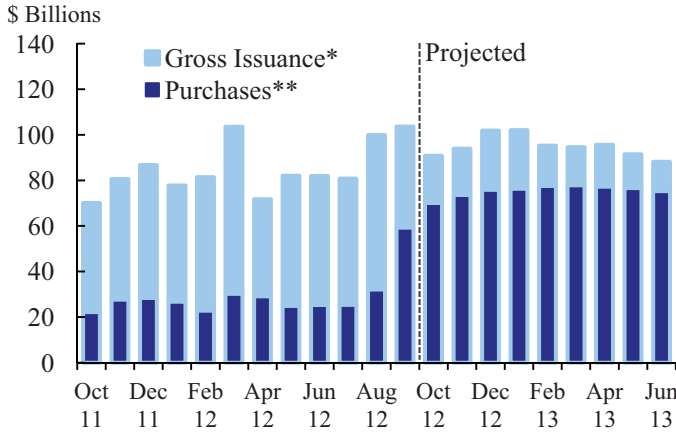
*5-year, 5-year forward rate spreads to Germany.
Source: Bloomberg

(12) Uncertainty-Related Indicators



Source: Baker, Bloom, and Davis (2012), Bloomberg

(13) Projected MBS Purchases and Issuance



*Adjusted TBA-eligible issuance.

**Reinvestment projections based on baseline forecast for rate path.

Source: Federal Reserve Bank of New York, BlackRock, eMBS, KDS

(14) MBS Purchase Allocations

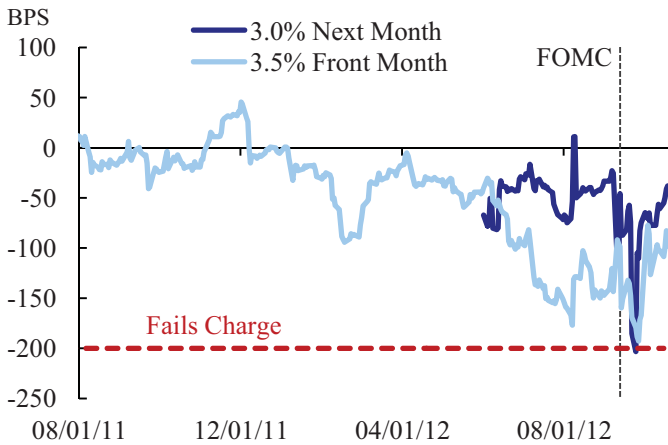
| | 30-Year | | | | 15-Year |
|----------------|-----------|------------|------------|------------|------------|
| | 2.5% | 3.0% | 3.5% | 4.0% | |
| Reinvestments* | 0% | 13% | 56% | 21% | 10% |
| Post-FOMC** | 1% | 60% | 20% | 0% | 19% |
| Current | 2% | 59% | 18% | 0% | 21% |

*Average over entire reinvestment period until September FOMC.

**Average over post-FOMC period.

Source: Federal Reserve Bank of New York

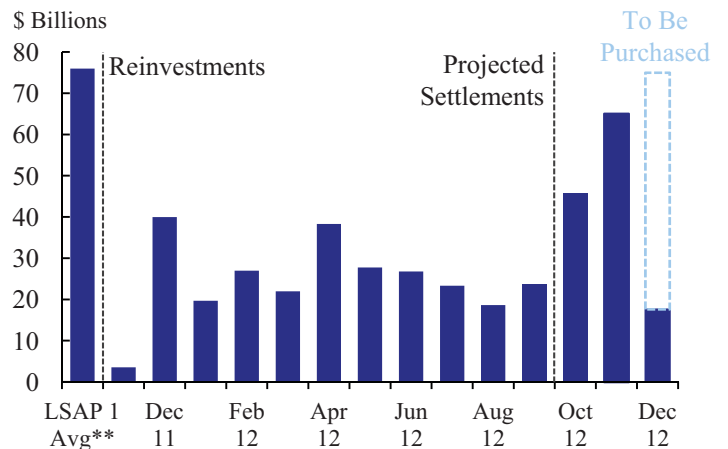
(15) Dollar Roll Implied Financing Rates*



*30-year FNMA dollar rolls. Front month is currently November-December roll; next month is currently December-January roll.

Source: J.P. Morgan

(16) MBS Purchase Settlements*

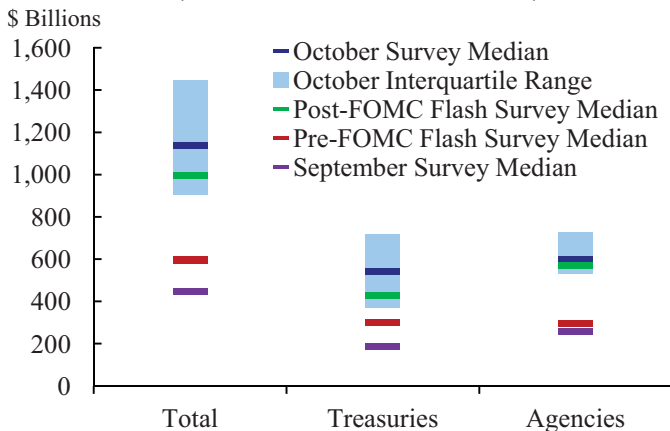


*Settlements net of realized dollar roll sales.

**Maximum settled monthly amount during LSAP 1 was \$170 billion.

Source: Federal Reserve Bank of New York, TradeWeb

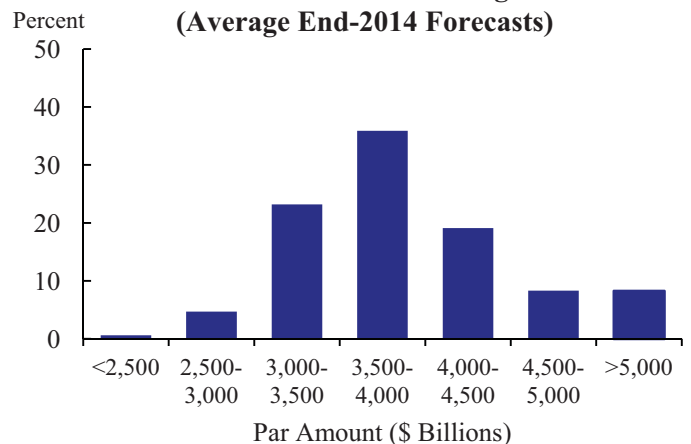
(17) Increase in SOMA Portfolio Holdings* (Median Mid-2014 Forecasts)



*Excluding one dealer.

Source: Federal Reserve Bank of New York Survey

(18) Probability Distribution of SOMA Portfolio Holdings* (Average End-2014 Forecasts)



*Excluding one dealer.

Source: Federal Reserve Bank of New York Survey

Appendix 3: Materials used by Mr. Wilcox

Class II FOMC – Restricted (FR)

Material for

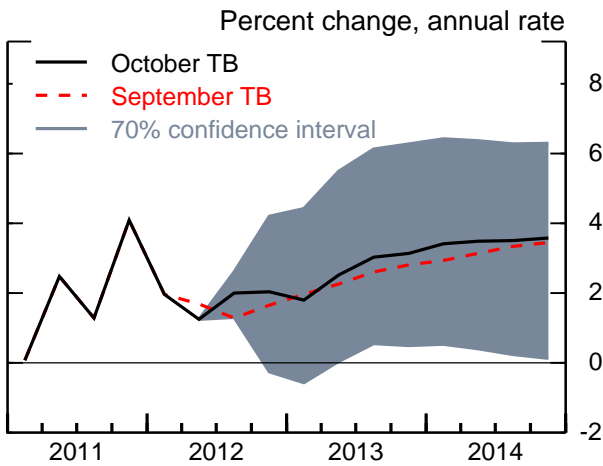
Forecast Summary

David Wilcox
October 23, 2012

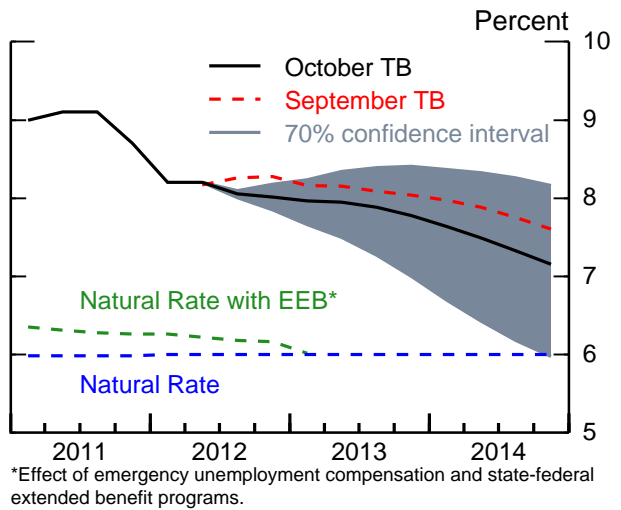
Forecast Summary

Confidence Intervals Based on Tealbook Track Record

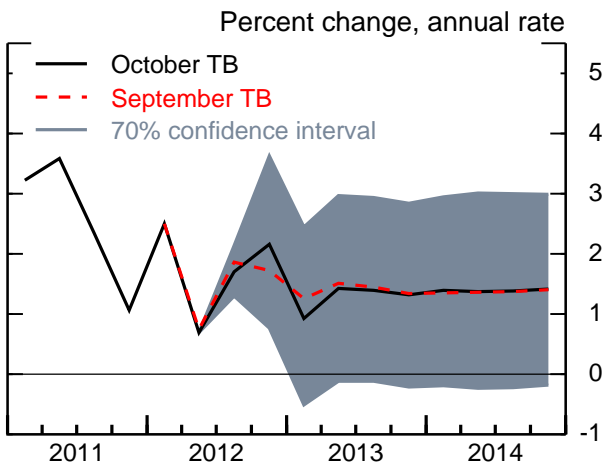
Real GDP



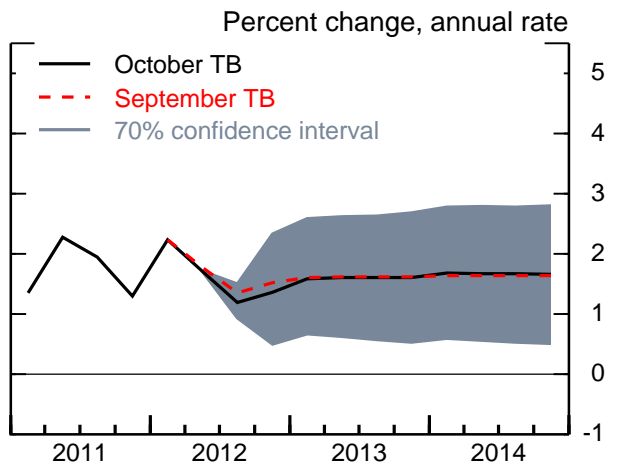
Unemployment Rate



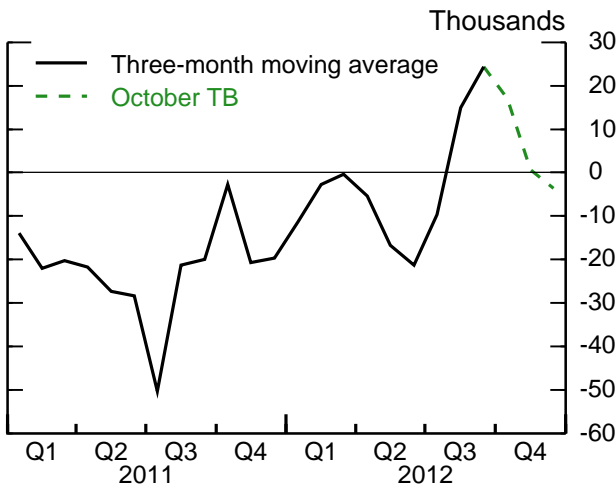
PCE Prices



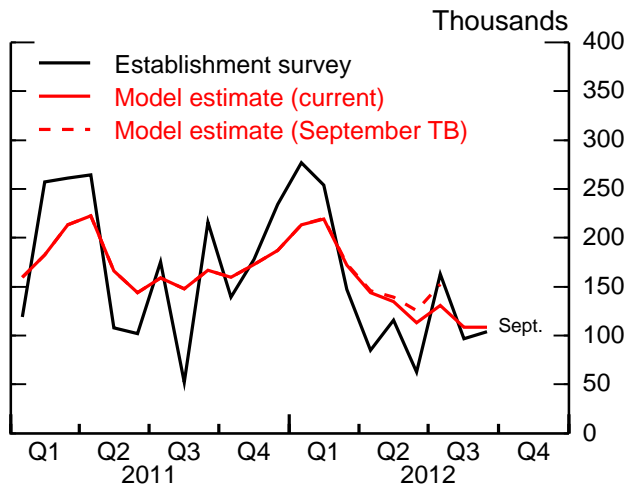
PCE Prices Excluding Food and Energy



Monthly Change in Government Payroll Employment



Measures of Monthly Change in Private Payroll Employment



Note: The Kalman filter estimates treat the household survey measure (not shown) and the establishment survey measure as noisy observations of the underlying signal.

Appendix 4: Materials used by Mr. English

Class I FOMC – Restricted Controlled (FR)

Material for

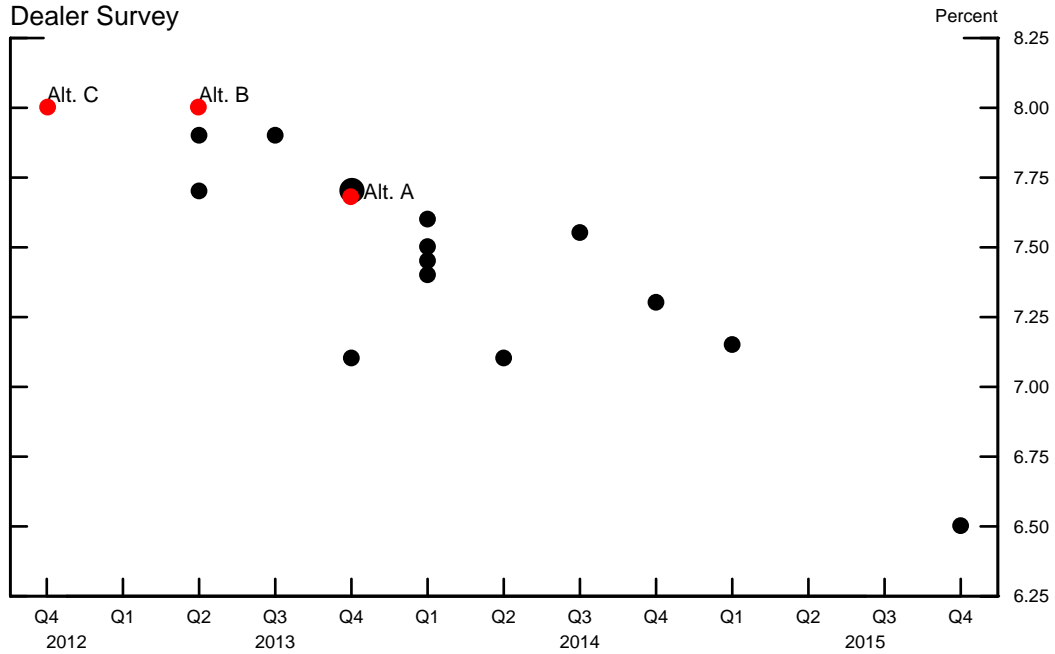
FOMC Briefing on Monetary Policy Alternatives

Bill English

October 23-24, 2012

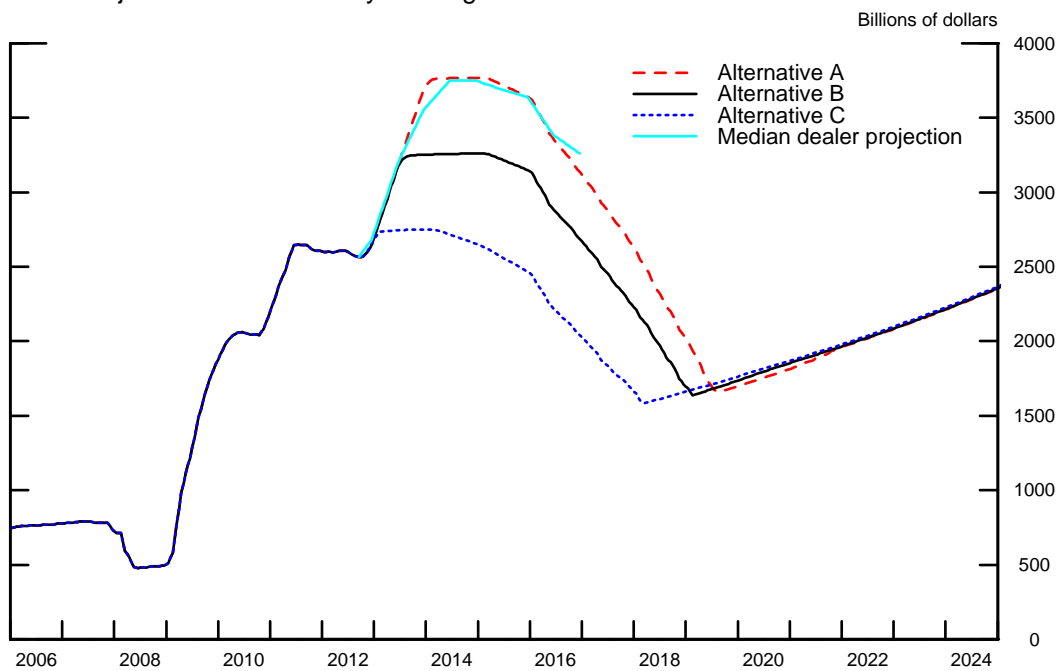
Federal Reserve Security Purchases and Holdings

Modal Unemployment Rate at Expected End of Security Purchases Dealer Survey

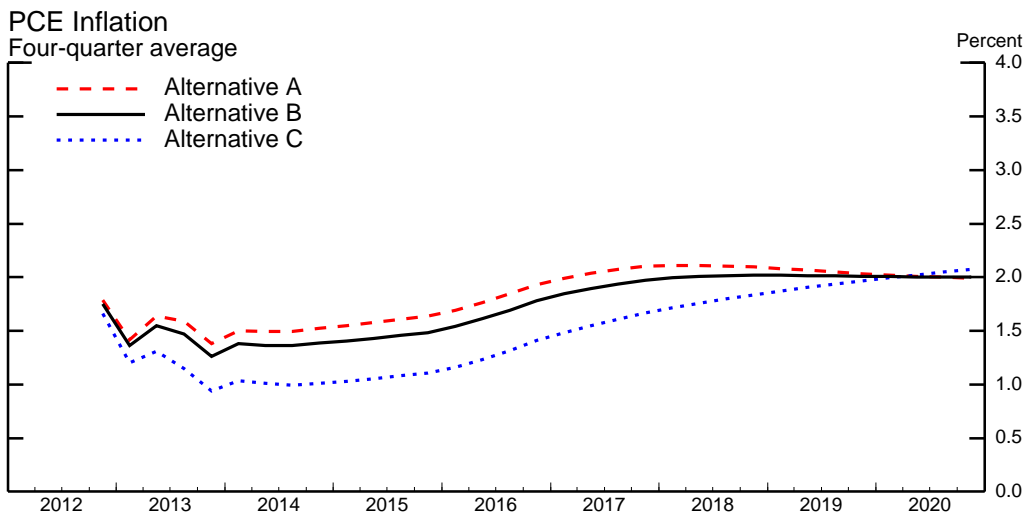
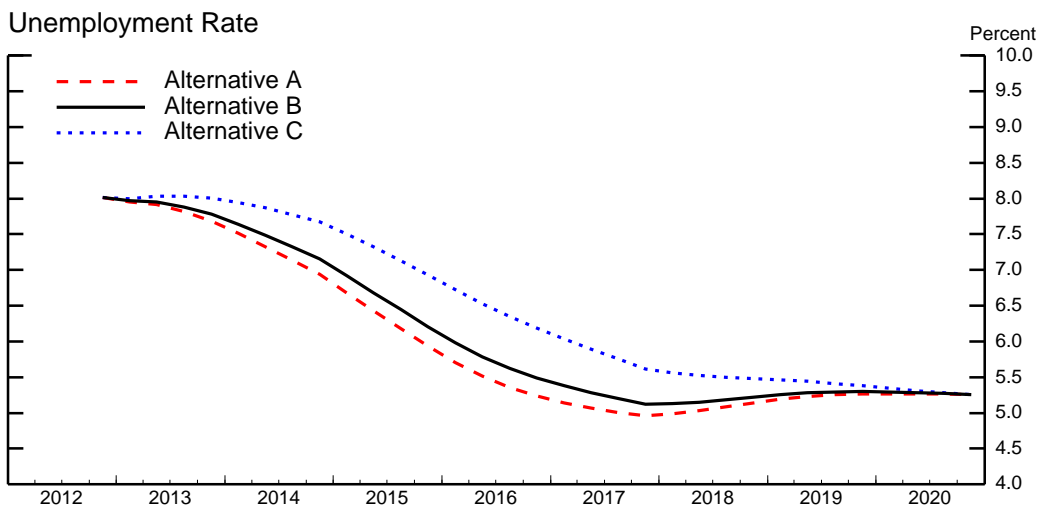
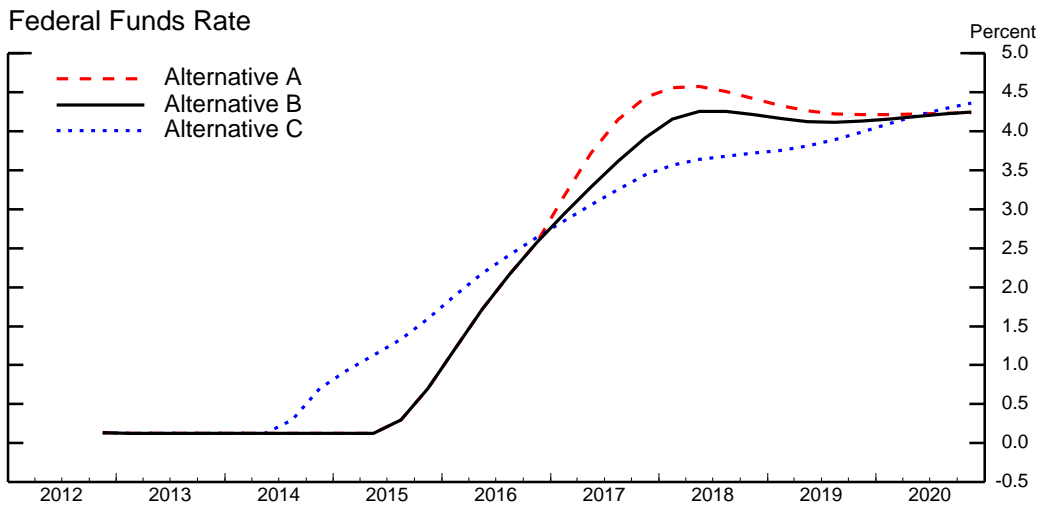


Note. Primary dealer unemployment rates are interpolated from average Q4 values reported in the survey. Excludes six primary dealers who did not report an unemployment rate at long enough horizons. Larger dot denotes two observations.

Total Projected SOMA Security Holdings



Alternative Monetary Policy Scenarios



SEPTEMBER FOMC STATEMENT

1. Information received since the Federal Open Market Committee met in August suggests that economic activity has continued to expand at a moderate pace in recent months. Growth in employment has been slow, and the unemployment rate remains elevated. Household spending has continued to advance, but growth in business fixed investment appears to have slowed. The housing sector has shown some further signs of improvement, albeit from a depressed level. Inflation has been subdued, although the prices of some key commodities have increased recently. Longer-term inflation expectations have remained stable.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee is concerned that, without further policy accommodation, economic growth might not be strong enough to generate sustained improvement in labor market conditions. Furthermore, strains in global financial markets continue to pose significant downside risks to the economic outlook. The Committee also anticipates that inflation over the medium term likely would run at or below its 2 percent objective.
3. To support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandate, the Committee agreed today to increase policy accommodation by purchasing additional agency mortgage-backed securities at a pace of \$40 billion per month. The Committee also will continue through the end of the year its program to extend the average maturity of its holdings of securities as announced in June, and it is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities. These actions, which together will increase the Committee's holdings of longer-term securities by about \$85 billion each month through the end of the year, should put downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative.
4. The Committee will closely monitor incoming information on economic and financial developments in coming months. If the outlook for the labor market does not improve substantially, the Committee will continue its purchases of agency mortgage-backed securities, undertake additional asset purchases, and employ its other policy tools as appropriate until such improvement is achieved in a context of price stability. In determining the size, pace, and composition of its asset purchases, the Committee will, as always, take appropriate account of the likely efficacy and costs of such purchases.
5. To support continued progress toward maximum employment and price stability, the Committee expects that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the economic recovery strengthens. In particular, the Committee also decided today to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that exceptionally low levels for the federal funds rate are likely to be warranted at least through mid-2015.

OCTOBER FOMC STATEMENT—ALTERNATIVE A

1. Information received since the Federal Open Market Committee met in ~~August~~ **September** suggests that economic activity has continued to expand at a moderate pace in recent months. Growth in employment has been slow, and the unemployment rate remains elevated. Household spending has continued to advance, but growth in business fixed investment ~~appears to have~~ **has** slowed. The housing sector has shown some further signs of improvement, albeit from a depressed level. Inflation ~~has been subdued, although the prices of some key commodities have increased recently~~ **picked up somewhat, reflecting higher energy prices**. Longer-term inflation expectations have remained stable.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee is **remains** concerned that, without further policy accommodation, economic growth might not be strong enough to generate sustained improvement in labor market conditions. Furthermore, strains in global financial markets continue to pose significant downside risks to the economic outlook. The Committee also anticipates that inflation over the medium term likely would run at or below its 2 percent objective.
3. To support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandate, the Committee agreed today to ~~increase policy accommodation by~~ **continue** purchasing additional agency mortgage-backed securities at a pace of \$40 billion per month **after the end of the year**. The Committee also ~~will continue through the end of the year~~ **agreed to purchase longer-term Treasury securities at a pace of \$45 billion per month after** its program to extend the average maturity of its holdings of **Treasury** securities ~~as announced in June, and it ends in December. The Committee~~ is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities. These actions, which together will increase the Committee's holdings of longer-term securities by about \$85 billion each month ~~through the end of the year~~, should put downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative.
4. The Committee will closely monitor incoming information on economic and financial developments ~~in coming months. If the outlook for the labor market does not improve substantially,~~ The Committee will continue its purchases of agency mortgage-backed securities **and Treasury securities**, ~~undertake additional asset purchases,~~ and employ its other policy tools as appropriate, until ~~such improvement is achieved~~ **it judges that data on economic activity and labor market conditions are consistent with an outlook for sustained progress toward maximum employment** in a context of price stability. In determining the size, pace, and composition of its asset purchases, the Committee will, as always, take appropriate account of the likely efficacy and costs of such purchases.
5. To support continued progress toward maximum employment and price stability, the Committee expects that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the economic recovery strengthens. In particular, the Committee also decided today to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that exceptionally low levels for the federal funds rate are likely to be warranted at least through mid-2015.

OCTOBER FOMC STATEMENT—ALTERNATIVE B

1. Information received since the Federal Open Market Committee met in ~~August~~ **September** suggests that economic activity has continued to expand at a moderate pace in recent months. Growth in employment has been slow, and the unemployment rate remains elevated. Household spending has ~~continued to advance~~ **d a bit more quickly**, but growth in business fixed investment ~~appears to have~~ **has** slowed. The housing sector has shown some further signs of improvement, albeit from a depressed level. Inflation ~~has been subdued, although the prices of some key commodities have increased recently~~ **picked up somewhat, reflecting higher energy prices**. Longer-term inflation expectations have remained stable.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee is **remains** concerned that, without further **sufficient** policy accommodation, economic growth might not be strong enough to generate sustained improvement in labor market conditions. Furthermore, strains in global financial markets continue to pose significant downside risks to the economic outlook. The Committee also anticipates that inflation over the medium term likely would run at or below its 2 percent objective.
3. To support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandate, the Committee ~~agreed today to increase policy accommodation by~~ **will continue** purchasing additional agency mortgage-backed securities at a pace of \$40 billion per month. The Committee also will continue through the end of the year its program to extend the average maturity of its holdings of **Treasury** securities ~~as announced in June~~, and it is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities. These actions, which together will increase the Committee's holdings of longer-term securities by about \$85 billion each month through the end of the year, should put downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative.
4. The Committee will closely monitor incoming information on economic and financial developments in coming months. If the outlook for the labor market does not improve substantially, the Committee will continue its purchases of agency mortgage-backed securities, undertake additional asset purchases, and employ its other policy tools as appropriate until such improvement is achieved in a context of price stability. In determining the size, pace, and composition of its asset purchases, the Committee will, as always, take appropriate account of the likely efficacy and costs of such purchases.
5. To support continued progress toward maximum employment and price stability, the Committee expects that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the economic recovery strengthens. In particular, the Committee also decided today to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that exceptionally low levels for the federal funds rate are likely to be warranted at least through mid-2015.

OCTOBER FOMC STATEMENT—ALTERNATIVE C

1. Information received since the Federal Open Market Committee met in ~~August~~ **September** suggests that economic activity has continued to expand at a moderate pace in recent months **despite the adverse effects of the drought on agricultural production**. ~~Growth in~~ Employment has **increased further** ~~been slow~~, and the unemployment rate, ~~remains~~ **though still elevated, has declined**. ~~Household spending~~ **Private domestic demand** has continued to advance, ~~but growth in business fixed investment appears to have slowed~~. The housing sector has shown some further signs of improvement, ~~albeit from a depressed level~~. Inflation ~~has been subdued, although the prices of some key commodities have increased recently~~ **picked up, mainly reflecting higher energy prices; however**, longer-term inflation expectations have remained stable.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee ~~is concerned that, without further policy accommodation, economic growth might not be strong enough to generate sustained improvement in labor market conditions~~ **expects economic growth to be moderate over coming quarters and then to pick up gradually, supported in part by the highly accommodative stance of monetary policy, and consequently anticipates that the unemployment rate will continue to decline toward levels that the Committee judges consistent with its dual mandate**. Furthermore **However**, strains in global financial markets continue to pose significant downside risks to the economic outlook. The Committee also anticipates that inflation over the medium term ~~likely would~~ **will** run at ~~or below~~ **near** its 2 percent objective.
3. To support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandate, the Committee agreed today to ~~increase policy accommodation by~~ **continue** purchasing additional agency mortgage-backed securities at a pace of \$40 billion per month **through the end of the year**. The Committee also will continue through the end of the year its program to extend the average maturity of its holdings of **Treasury** securities ~~as announced in June~~, and it is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities. These actions, which together will increase the Committee's holdings of longer-term securities by about \$85 billion each month through the end of the year, should put downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative.
4. The Committee will closely monitor incoming information on economic and financial developments ~~in coming months~~. ~~If the outlook for the labor market does not improve substantially, the Committee will continue its purchases of agency mortgage-backed securities, undertake additional asset purchases, and employ its other policy tools as appropriate until such improvement is achieved~~ **and is prepared to take further action as needed to promote sustained improvement in labor market conditions** in a context of price stability. ~~In determining the size, pace, and composition of its asset purchases, the Committee will, as always, take appropriate account of the likely efficacy and costs of such purchases.~~
5. To support continued progress toward maximum employment and price stability, the Committee expects that a highly accommodative stance of monetary policy will remain appropriate for [a considerable | **some**] time after the economic recovery strengthens. In

particular, the Committee ~~also~~ decided today to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that exceptionally low levels for the federal funds rate are likely to be warranted at least through ~~mid-2015~~ [late 2014 | mid-2014 | late 2013].

OR

- 5'. To support continued progress toward maximum employment ~~and~~ in a context of price stability, the Committee expects that a highly accommodative stance of monetary policy will remain appropriate for [a considerable | some] time after the economic recovery strengthens. In particular, the Committee ~~also~~ decided today to keep the target range for the federal funds rate at 0 to ¼ percent ~~and currently anticipates that exceptionally low levels for the federal funds rate are likely to be warranted at least through mid-2015.~~ As rates of resource utilization rise toward levels consistent with maximum employment, the Committee will need to make monetary policy less accommodative in order to foster sustained economic expansion with inflation at its longer-run objective. In determining the appropriate time to increase its target for the federal funds rate, the Committee will consider a range of factors, including actual and projected labor market conditions, the medium-term outlook for inflation, and the risks to the achievement of the Committee's objectives.

SEPTEMBER 2012 DIRECTIVE

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to continue the maturity extension program it announced in June to purchase Treasury securities with remaining maturities of 6 years to 30 years with a total face value of about \$267 billion by the end of December 2012, and to sell or redeem Treasury securities with remaining maturities of approximately 3 years or less with a total face value of about \$267 billion. For the duration of this program, the Committee directs the Desk to suspend its policy of rolling over maturing Treasury securities into new issues. The Committee directs the Desk to maintain its existing policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in the System Open Market Account in agency mortgage-backed securities. The Desk is also directed to begin purchasing agency mortgage-backed securities at a pace of about \$40 billion per month. The Committee directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

OCTOBER 2012 DIRECTIVE—ALTERNATIVE A

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to continue the maturity extension program it announced in June to purchase Treasury securities with remaining maturities of 6 years to 30 years with a total face value of about \$267 billion by the end of December 2012, and to sell or redeem Treasury securities with remaining maturities of approximately 3 years or less with a total face value of about \$267 billion. For the duration of this program, the Committee directs the Desk to suspend its policy of rolling over maturing Treasury securities into new issues. The Committee directs the Desk to maintain its existing policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in the System Open Market Account in agency mortgage-backed securities. The Desk is also directed to ~~begin~~ **continue** purchasing agency mortgage-backed securities at a pace of about \$40 billion per month. The Committee directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

OCTOBER 2012 DIRECTIVE—ALTERNATIVE B

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to continue the maturity extension program it announced in June to purchase Treasury securities with remaining maturities of 6 years to 30 years with a total face value of about \$267 billion by the end of December 2012, and to sell or redeem Treasury securities with remaining maturities of approximately 3 years or less with a total face value of about \$267 billion. For the duration of this program, the Committee directs the Desk to suspend its policy of rolling over maturing Treasury securities into new issues. The Committee directs the Desk to maintain its existing policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in the System Open Market Account in agency mortgage-backed securities. The Desk is also directed to ~~begin~~ **continue** purchasing agency mortgage-backed securities at a pace of about \$40 billion per month. The Committee directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

OCTOBER 2012 DIRECTIVE—ALTERNATIVE C

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to continue the maturity extension program it announced in June to purchase Treasury securities with remaining maturities of 6 years to 30 years with a total face value of about \$267 billion by the end of December 2012, and to sell or redeem Treasury securities with remaining maturities of approximately 3 years or less with a total face value of about \$267 billion. For the duration of this program, the Committee directs the Desk to suspend its policy of rolling over maturing Treasury securities into new issues. The Committee directs the Desk to maintain its existing policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in the System Open Market Account in agency mortgage-backed securities. The Desk is also directed to ~~begin~~ **continue** purchasing agency mortgage-backed securities at a pace of about \$40 billion per month **until the end of 2012**. The Committee directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

Appendix 5: Materials used by Mr. Rudd

Class I FOMC – Restricted Controlled (FR)

Material for

**Staff Presentation on the Experimental Consensus
Forecast**

Jeremy Rudd
October 24, 2012

Exhibit 1

Review of the Consensus Forecast Initiative**Key lessons from the consensus forecast exercises**

- A consensus forecast would necessarily go beyond the Committee's post-meeting policy statement (as it is currently designed) by outlining the Committee's intentions over the next several years.
 - Reaching a consensus on the appropriate medium- and longer-term policy path could be extremely difficult.
 - Presenting a consensus medium- and longer-term policy path could lead to communications challenges.
- Exercises also revealed some important production-related challenges.
 - Impossible to guarantee the production of a forecast that incorporates the Committee's policy decision in time for the Chairman's press conference.
 - Participants appear to be unclear about how they should determine whether they support the proposed consensus outlook.

Avenues for further exploration?

- Explore the possibility of formally voting on the medium- and longer-term policy path and incorporating the resulting decision into the post-meeting statement.
- Examine the feasibility of conditioning the consensus forecast on market expectations for policy.
- Publish projections under a set of "bracketing" policy alternatives.

Possible enhancements to the SEP

- Include medians of the projections of participants who voted for or otherwise supported the policy action.
- Distinguish voters from non-voters in the SEP.
- Publish the full matrix of SEP submissions, with or without attribution.

Exhibit 2
Questions for Discussion

1. Questions pertaining to the development of an FOMC consensus forecast

If the Committee decides to continue with the consensus forecast initiative, it would have to arrive at shared views on several issues. We seek your opinions on the following:

- A. Given the limited information provided in FOMC statements about the likely future paths of the federal funds rate and the balance sheet, how should those paths on which a consensus forecast would be conditioned be selected from among the wide range of paths that are consistent with the FOMC statement?
- B. Should a consensus forecast be conditioned on the policy decision taken at the meeting, even though this would require that publication of the consensus forecast be pushed back to some significant period of time after the meeting? Or should the forecast be conditioned on a policy assumption that would allow publication immediately following the meeting, but does not necessarily reflect the policy decision taken at the meeting?
- C. Does asking participants whether they broadly endorse the forecast (perhaps subject to specific qualifications) or, alternatively, have essentially different views, provide sufficient clarity about the support for the consensus forecast? Does support for the policy decision taken at the meeting (*i.e.*, voting for the policy decision—or, for nonvoting participants, indicating support for the decision) imply endorsement of the consensus forecast, and vice versa?
- D. Would the Committee endorse producing a consensus forecast at each FOMC meeting?

2. Questions pertaining to possible enhancements of the SEP

If the Committee were to pursue enhancements of the SEP instead of a consensus forecast, which of the following steps would you support?

- A. Publishing the median projection of voters supporting the statement.
- B. Publishing the scatterplot of the combinations of unemployment and inflation expected to prevail at the time of first increase of the federal funds rate.
- C. Publishing information about whether a particular projection was made by a current voting member.
- D. Publishing additional information related to balance sheet actions (such as the time and/or conditions at which asset purchases are expected to end, or a path for the size of the balance sheet).

Questions for Discussion (continued)

2. Questions pertaining to possible enhancements of the SEP (continued)

- E. Releasing with the SEP the full matrix of multivariate projections, with or without the names associated with individual multivariate forecasts.
- F. Circulating among FOMC participants individual SEP submissions with the names of participants attached.
- G. Releasing additional information, and if so, what and when.

3. Assessment of the direction of the consensus forecast initiative

In your view, should the Committee aim to publish a consensus forecast, including a narrative explaining its economic rationale and a diversity-of-views section, or should it aim to enhance the SEP?

With respect to your preferred outcome, what other types of exercises should the Committee undertake before it released new information to the public? In what timeframe do you expect the Committee would be ready to go public?